February 24, 2023
2022-003

Honorable Malia M. Cohen, State Controller
Office of the State Controller
300 Capitol Mall, Suite 1850
Sacramento, California 95814

Dear Controller Cohen:

The California State Auditor's Office presents its Independent Auditor's Report on the State Controller's Office (SCO) *Schedule of Pensionable Compensation and Schedule of Pension Amounts* for the State Miscellaneous, State Industrial, State Safety, and State Peace Officers and Firefighters plans of the State of California, as of and for the year ended June 30, 2021. The schedules and related notes provide certain state entities and their auditors with information related to the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and are presented in conformity with accounting principles generally accepted in the United States of America.

Our report is intended solely for the parties included in the restriction on use paragraph contained in the Independent Auditor's Report and is not intended to be and should not be used by anyone other than these specified parties.

We conducted the audit under the authority of Government Code, Section 8546.4.

Respectfully submitted,

Linus Li

LINUS LI, CPA
Acting Deputy State Auditor

Independent Auditor's Report

THE LEGISLATURE OF THE STATE OF CALIFORNIA
AND THE CALIFORNIA STATE CONTROLLER'S OFFICE

Report on the Audit of the Schedules

Opinions

We have audited the accompanying Schedule of Pensionable Compensation by Plan for the State Miscellaneous, State Industrial, State Safety, and State Peace Officers and Firefighters plans (the plans) of the State of California, for the year ended June 30, 2021, and the related notes. We have also audited the net pension liability, deferred outflows of resources, deferred inflows of resources, and total pension expense included in the accompanying Schedule of Pension Amounts by Plan as of and for the year ended June 30, 2021, and the related notes.

In our opinion, the accompanying schedules present fairly, in all material respects, the pensionable compensation, net pension liability, deferred outflows of resources, deferred inflows of resources, and total pension expense for the plans as of and for the year ended June 30, 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (generally accepted auditing standards) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by Comptroller General of the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the State of California and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedules.

In performing an audit in accordance with general accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedules.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of California's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Restriction on Use

Our report is intended solely for the information and use of the California State Controller's Office, the California Public Employees' Retirement System, the plans' employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2021. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of California's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of California's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

Linus Li

LINUS LI, CPA
Acting Deputy State Auditor

Sacramento, CA
February 23, 2023

State of California

Agent Multiple-Employer Defined Benefit Pension Plans

Schedule of Pensionable Compensation and Schedule of Pension Amounts

For the Fiscal Year Ended June 30, 2021

MALIA M. COHEN

California State Controller's Office

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Introductory Section

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MALIA M. COHEN
California State Controller

February 24, 2023

To State Entities and their External Auditors:

I am pleased to submit the report on the *Schedule of Pensionable Compensation by Plan and the Schedule of Pension Amounts by Plan* (schedules) for the following agent multiple-employer plans of the State of California: State Miscellaneous, State Industrial, State Safety, and State Peace Officers and Firefighters, for the fiscal year ended June 30, 2021. This report provides certain state entities and their external auditors with supporting information related to Governmental Accounting Standards Board Statement No. 68 (GASB No. 68), *Accounting and Financial Reporting for Pensions*, as amended.

The State Controller's Office is responsible for the preparation and fair presentation of the schedules in accordance with accounting principles generally accepted in the United States of America. The report provides users with reasonable assurance that the pension information presented in the schedules is fairly stated in accordance with GASB No. 68.

The information contained in this report is solely for the use of certain state entities and their external auditors and is not intended to be, and should not be, used by anyone other than those specified parties. However, under the Brown Act, the report is a matter of public record.

Sincerely,

Original signed by

MALIA M. COHEN

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Independent Auditor's Opinion

Independent Auditor's Report

THE LEGISLATURE OF THE STATE OF CALIFORNIA
AND THE CALIFORNIA STATE CONTROLLER'S OFFICE

Report on the Audit of the Schedules

Opinions

We have audited the accompanying Schedule of Pensionable Compensation by Plan for the State Miscellaneous, State Industrial, State Safety, and State Peace Officers and Firefighters plans (the plans) of the State of California, for the year ended June 30, 2021, and the related notes. We have also audited the net pension liability, deferred outflows of resources, deferred inflows of resources, and total pension expense included in the accompanying Schedule of Pension Amounts by Plan as of and for the year ended June 30, 2021, and the related notes.

In our opinion, the accompanying schedules present fairly, in all material respects, the pensionable compensation, net pension liability, deferred outflows of resources, deferred inflows of resources, and total pension expense for the plans as of and for the year ended June 30, 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (generally accepted auditing standards) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by Comptroller General of the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the State of California and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedules.

In performing an audit in accordance with general accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedules.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of California's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Restriction on Use

Our report is intended solely for the information and use of the California State Controller's Office, the California Public Employees' Retirement System, the plans' employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2021. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of California's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of California's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

LINUS LI, CPA
Acting Deputy State Auditor

Sacramento, CA
February 23, 2023

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Schedules by Plan

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Schedule of Pensionable Compensation by Plan

For the Year Ended June 30, 2021
(amounts in thousands)

Plans	Pensionable Compensation[1]
State Miscellaneous (Tiers 1 & 2)	$ 12,909,399
State Industrial	$ 706,128
State Safety	$ 2,367,960
State Peace Officers and Firefighters	$ 3,629,097

[1] Amounts in the schedule include the payroll reductions resulting from the Personal Leave Program 2020 and Furlough 2020 programs.

Schedule of Pension Amounts by Plan

As of and For the Year Ended June 30, 2021
(amounts in thousands)

	Plans	
	State Miscellaneous	**State Industrial**
Net Pension Liability, as of June 30, 2020	$ 34,761,659	$ 1,015,631
Net Pension Liability, as of June 30, 2021	22,289,544	443,360
Increase (decrease) in the Net Pension Liability	**$ (12,472,115)**	**$ (572,271)**
Deferred Outflows of Resources: [1, 2]		
Differences between expected and actual experience [3]	$ 1,427,299	$ 40,734
Changes in assumptions [3]	—	—
Net differences between projected and actual earnings on pension plan investments [4]	—	—
Total Deferred Outflows of Resources	**$ 1,427,299**	**$ 40,734**
Deferred Inflows of Resources: [2]		
Differences between expected and actual experience [3]	$ —	$ —
Changes in assumptions [3]	33,599	—
Net differences between projected and actual earnings on pension plan investments [4]	9,414,939	446,564
Total Deferred Inflows of Resources	**$ 9,448,538**	**$ 446,564**
Total Pension Expense	**$ 1,541,256**	**$ 57,173**

[1] This schedule does not include deferred outflows of resources for employer contributions made subsequent to the measurement date.

[2] This schedule does not include deferred outflows and inflows of resources for changes in the employers' proportionate share based on pensionable compensation.

[3] Deferred outflows and inflows of resources related to differences between expected and actual experience and changes in assumptions are amortized over closed periods equal to the average expected remaining service lives of all plan members which are 4.3 years for the State Miscellaneous, 3.4 years for State Industrial, 4.5 years for State Safety, and 4.9 years for State Peace Officers and Firefighters.

[4] Deferred outflows and inflows of resources related to differences between projected and actual earnings on pension plan investments are netted and amortized over a closed 5-year period.

The accompanying notes are an integral part of the Schedules.

State Safety	State Peace Officers and Firefighters
$ 2,828,194	$ 14,082,026
1,030,520	9,225,335
$ (1,797,674)	**$ (4,856,691)**
$ 88,135	$ 903,183
—	100,337
—	—
$ 88,135	**$ 1,003,520**
$ 27,066	$ 11,020
1,963	5,021
1,354,867	4,254,445
$ 1,383,896	**$ 4,270,486**
$ 216,395	**$ 1,285,929**

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Notes to the Schedules

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Notes to the Schedules

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Pensionable Compensation by Plan and the Schedule of Pension Amounts by Plan (Schedules) present selected information for the agent multiple-employer defined benefit pension plans of the State of California, which include the State Miscellaneous Plan, State Industrial Plan, State Safety Plan, and State Peace Officers and Firefighters Plan (Plans). The Schedules are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Such preparation requires the California State Controller's Office to make a number of estimates and assumptions related to the reported amounts and disclosures. Due to the inherent nature of these estimates, actual results could differ.

The Schedule of Pension Amounts by Plan does not include the following entity-specific pension amounts that may need to be recognized in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68: (a) deferred outflows of resources for employer contributions made subsequent to the measurement date, and (b) deferred outflows and inflows of resources for changes in the employers' proportionate share based on pensionable compensation.

NOTE 2: PENSIONABLE COMPENSATION

The Schedule of Pensionable Compensation by Plan is prepared to provide state entities with the total pensionable compensation amounts. These amounts are used to calculate each state entity's proportionate share of pension amounts. The Schedule of Pensionable Compensation by Plan and the Schedule of Pension Amounts by Plan have the same measurement period of July 1, 2020, through June 30, 2021.

NOTE 3: NET PENSION LIABILITY

The following table shows the components of the net pension liability for the Plans as of June 30, 2021 (amounts in thousands):

Net Pension Liability Components	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters
Total Pension Liability	$ 126,608,681	$ 5,392,740	$ 15,981,838	$ 55,399,417
Less: Fiduciary Net Position	(104,319,137)	(4,949,380)	(14,951,318)	(46,174,082)
Net Pension Liability	**$ 22,289,544**	**$ 443,360**	**$ 1,030,520**	**$ 9,225,335**

Detailed information about each plan's fiduciary net position is available in the separately issued California Public Employees' Retirement System (CalPERS) report at www.CalPERS.ca.gov.

NOTE 4: ACTUARIAL METHODS AND ASSUMPTIONS

For the measurement period ended June 30, 2021 (measurement date), the total pension liability was determined by rolling forward the June 30, 2020 total pension liability. The June 30, 2021 total pension liabilities for the Plans were based on the following actuarial methods and assumptions:

Valuation Date:	June 30, 2020
Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate:	7.15%
Inflation:	2.50%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.15% Net of Pension Plan Investment Expenses, but without reduction for Administrative Expenses, includes Inflation
Mortality Rate Table:	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase:	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using the Society of Actuaries 90% of Scale MP 2016. For more details on this table, please refer to the 2017 CalPERS Experience Study and Review of Actuarial Assumptions report (Experience Study).

All other actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality, and retirement rates. The Experience Study report is available at www.CalPERS.ca.gov.

NOTE 5: DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. CalPERS' approach for the cash flow projections is presented in the GASB 67 and 68 Crossover Testing Report, which may be obtained from the CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for

cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The following table reflects expected real rate of return by asset class:

Asset Class	Policy Target Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	50.0 %	4.80 %	5.98 %
Fixed Income	28.0	1.00	2.62
Inflation Assets	—	0.77	1.81
Private Equity	8.0	6.30	7.23
Real Assets	13.0	3.75	4.93
Liquidity	1.0	—	(0.92)

The Real Return Years 1-10 used an expected inflation rate of 2.00% for this period. The Real Return Years 11+ used an expected inflation rate of 2.92% for this period.

NOTE 6: PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

The table below presents deferred outflows and inflows of resources as of June 30, 2021. Deferred outflows and inflows of resources are recognized for the difference between expected and actual experience. Deferred outflows and inflows of resources are recognized for the change in assumptions. Deferred outflows of resources due to employer contributions made subsequent to the measurement date are not presented in the table below. Net deferred outflows of resources are recognized for the aggregate difference (positive and negative) between projected and actual earnings on pension plan investments arising in different measurement periods. Deferred outflows and inflows of resources for changes in the employers' proportionate share of pensionable compensation are not presented in the table below (amounts in thousands):

Description	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters
Deferred Outflows of Resources	$ 1,427,299	$ 40,734	$ 88,135	$ 1,003,520
Deferred Inflows of Resources	$ 9,448,538	$ 446,564	$ 1,383,896	$ 4,270,486

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as either a debit or a (credit) in the future as follows (amounts in thousands):

Measurement Periods	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters
Year Ended June 30,				
2022	$ (1,554,450)	$ (82,329)	$ (294,456)	$ (618,737)
2023	(1,795,016)	(93,912)	(288,025)	(699,297)
2024	(2,085,505)	(105,181)	(332,702)	(878,577)
2025	(2,586,268)	(124,408)	(380,578)	(1,070,355)
2026	—	—	—	—
Thereafter	—	—	—	—
Total	**$ (8,021,239)**	**$ (405,830)**	**$ (1,295,761)**	**$ (3,266,966)**

For the fiscal year ended June 30, 2021, the amounts recognized as components of pension expense for each of the Plans were as follows (amounts in thousands):

Description	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters
Service Cost	$ 2,212,280	$ 136,918	$ 564,198	$ 1,111,888
Interest on the Total Pension Liability	8,603,225	363,230	1,072,106	3,745,062
Recognized Differences between Expected and Actual Experience	927,347	41,775	32,777	304,706
Recognized Changes of Assumptions	(335,989)	(6,360)	37,151	496,662
Employee Contributions	(928,152)	(58,867)	(223,408)	(423,995)
Net Plan to Plan Resource Movement	2,558	663	(1,513)	66
Projected Earnings on Pension Plan Investments	(6,148,566)	(289,957)	(874,210)	(2,713,196)
Recognized Differences between Projected and Actual Earnings on Plan Investments	(2,878,610)	(134,319)	(402,978)	(1,273,660)
Administrative Expense	87,165	4,090	12,272	38,396
Other Miscellaneous Income	(2)	—	—	—
Total Pension Expense	**$ 1,541,256**	**$ 57,173**	**$ 216,395**	**$ 1,285,929**

NOTE 7: SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following table presents the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate (amounts in thousands):

Net Pension Liability/(Asset)	Current Rate -1%	Current Rate (7.15%)	Current Rate +1%
State Miscellaneous	$ 37,559,147	$ 22,289,544	$ 9,488,722
State Industrial	$ 1,175,133	$ 443,360	$ (160,038)
State Safety	$ 3,123,670	$ 1,030,520	$ (703,229)
State Peace Officers and Firefighters	$ 16,806,307	$ 9,225,335	$ 2,999,222

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State Accounting and Reporting Division
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